

**Tennessee Board of Regents
Walters State Community College**

**For the Years Ended
June 30, 1997, and June 30, 1996**

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October 7, 1998

The Honorable Don Sundquist, Governor

and

Members of the General Assembly

State Capitol

Nashville, Tennessee 37243

and

The Honorable Charles E. Smith, Chancellor

Tennessee Board of Regents

1415 Murfreesboro Road, Suite 350

Nashville, Tennessee 37217

and

Dr. Jack E. Campbell, President

Walters State Community College

500 South Davy Crockett Parkway

Morristown, Tennessee 37813

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Walters State Community College, for the years ended June 30, 1997, and June 30, 1996. You will note from the independent auditor's report that a qualified opinion was given on the fairness of the presentation of the financial statements. The college has elected not to record the liability for accrued compensated absences in its financial statements. In our opinion, accrued compensated absences should be recorded to conform with generally accepted accounting principles.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Very truly yours,

W. R. Snodgrass

Comptroller of the Treasury

WRS/sdr

98/071

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Walters State Community College
For the Years Ended June 30, 1997, and June 30, 1996

AUDIT OBJECTIVES

The objectives of the audit were to consider the college's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is qualified because of the omission of the liability for accrued compensated absences from the financial statements.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Tennessee Board of Regents
Walters State Community College
For the Years Ended June 30, 1997, and June 30, 1996

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**Tennessee Board of Regents
Walters State Community College
For the Years Ended June 30, 1997, and June 30, 1996**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Walters State Community College. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any state governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

In 1957, the state legislature ordered a study of community college programs. Acting on the recommendation of the Governor and the State Department of Education, the General Assembly authorized the Department of Education to establish several community colleges throughout Tennessee. Walters State Community College was established in 1967; the college first admitted students in the fall of 1970. The General Assembly vested the governance of Walters State Community College in the Tennessee Board of Regents on July 1, 1972.

ORGANIZATION

The governance of Walters State Community College is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the college is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 1995, through June 30, 1997, and was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the years ended June 30, 1997, and June 30, 1996. Walters State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the college's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
 2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
 3. to determine the fairness of the presentation of the financial statements; and
 4. to recommend appropriate actions to correct any deficiencies.
-

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The college filed its report with the Department of Audit on April 23, 1997. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the college has corrected previous audit findings concerning the need to improve controls over accounting operations.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 1997, and June 30, 1996, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The college has elected not to accrue the liability for compensated absences. Since this accounting practice is contrary to generally accepted accounting principles, the Division of State Audit has rendered a qualified opinion on the college's financial statements.

**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

May 15, 1998

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of Walters State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 1997, and June 30, 1996, and have issued our report thereon dated May 15, 1998. Our report was qualified because the college omitted the liability for accrued compensated absences from the balance sheets. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the college's financial statements are free of material misstatement, we performed tests of the college's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and,

The Honorable W. R. Snodgrass
May 15, 1998
Page Two

accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We did, however, note certain other less significant instances of noncompliance that we have reported to the college's management in a separate letter.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting that we have reported to the college's management in a separate letter.

This report is intended for the information of the General Assembly of the State of Tennessee and management. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/sdr

Independent Auditor's Report

May 15, 1998

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of Walters State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 1997, and June 30, 1996, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the years then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2 to the financial statements, the college has omitted the liability for accrued compensated absences from the accompanying balance sheets which should be included to conform with generally accepted accounting principles.

In our opinion, except for the effects of not including the liability for accrued compensated absences in the accompanying balance sheets, as discussed in the preceding paragraph, the

The Honorable W. R. Snodgrass
May 15, 1998
Page Two

financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Walters State Community College, as of June 30, 1997, and June 30, 1996, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 1998, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/sdr

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 1997, AND JUNE 30, 1996

	June 30, 1997	June 30, 1996		June 30, 1997	June 30, 1996
<u>ASSETS</u>			<u>LIABILITIES AND FUND BALANCES</u>		
Current funds:			Current funds:		
Unrestricted:			Unrestricted:		
General:			General:		
Cash and cash equivalents (Notes 3 and 4)	\$ 2,610,816.79	\$ 2,745,418.49	Liabilities:		
Accrued interest receivable	10,446.36	1,474.75	Accounts payable	\$ 77,985.60	\$ 74,864.11
Accounts receivable (net of allowance of \$25,420.81 at June 30, 1997, and \$16,429.14 at June 30, 1996)	166,571.57	124,449.71	Accrued liabilities	932,132.27	939,809.28
Inventories	32,321.68	32,823.70	Deferred revenue	608,958.85	557,226.14
Prepaid expenses and deferred charges	104,725.14	120,943.22	Checks payable	469,752.19	132,308.22
Other assets	10,548.70	14,805.43	Other liabilities	46,734.04	115,860.98
Due from restricted current funds	94,583.37	-	Total liabilities	2,135,562.95	1,820,068.73
			Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	128,625.23	112,360.45
			Allocation for encumbrances	117,352.75	229,500.10
			Allocation for designated appropriations - desegregation	1,000.00	-
			Discretionary allocations:		
			Allocation for subsequent budget	-	305,000.00
			Allocation for athletics	2,351.27	2,317.60
			Allocation for reserve	573,400.00	358,500.00
			Unallocated	71,721.41	212,168.42
			Total fund balances	894,450.66	1,219,846.57
Total general	3,030,013.61	3,039,915.30	Total general	3,030,013.61	3,039,915.30
Auxiliary enterprises:			Auxiliary enterprises:		
Cash and cash equivalents (Notes 3 and 4)	173,300.86	216,176.38	Liabilities:		
Accounts receivable (net of allowance of \$2,841.52 at June 30, 1997, and \$1,817.25 at June 30, 1996)	95,311.06	54,109.04	Accounts payable	18,156.84	20,390.83
Inventories	365,676.21	286,283.58	Fund balances:		
			Nondiscretionary allocations:		
			Allocation for working capital	460,987.27	340,392.62
			Allocation for encumbrances	12,426.05	31,295.41
			Discretionary allocation:		
			Allocation for contingencies	77,338.02	68,694.40
			Unallocated	65,379.95	95,795.74
			Total fund balances	616,131.29	536,178.17
Total auxiliary enterprises	634,288.13	556,569.00	Total auxiliary enterprises	634,288.13	556,569.00
Total unrestricted	3,664,301.74	3,596,484.30	Total unrestricted	3,664,301.74	3,596,484.30
Restricted:			Restricted:		
Cash and cash equivalents (Notes 3 and 4)	57,610.21	72,641.93	Liabilities:		
Accounts and grants receivable	650,953.93	399,237.56	Accounts payable	237,987.08	160,628.87
			Accrued liabilities	248.48	6,418.64
			Due to unrestricted current funds	94,583.37	-
			Total liabilities	332,818.93	167,047.51
			Fund balance	375,745.21	304,831.98
Total restricted	708,564.14	471,879.49	Total restricted	708,564.14	471,879.49
Total current funds	\$ 4,372,865.88	\$ 4,068,363.79	Total current funds	\$ 4,372,865.88	\$ 4,068,363.79
Loan funds:			Loan funds:		
Cash and cash equivalents (Notes 3 and 4)	\$ 910.94	\$ 672.84	Fund balances:		
			U.S. government grants refundable	\$ 795.09	\$ 580.80
			Restricted matching	88.34	64.53
			Unrestricted	27.51	27.51
Total loan funds	\$ 910.94	\$ 672.84	Total loan funds	\$ 910.94	\$ 672.84

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
BALANCE SHEETS
JUNE 30, 1997, AND JUNE 30, 1996

	June 30, 1997	June 30, 1996		June 30, 1997	June 30, 1996
ASSETS			LIABILITIES AND FUND BALANCES		
Plant funds:			Plant funds:		
Unexpended plant:			Unexpended plant:		
Cash and cash equivalents (Notes 3 and 4)	\$ 1,737,056.16	\$ 1,567,304.16	Liabilities:		
LIGIP deposit - capital projects	-	6,522.23	Accounts payable	\$ 1,087.11	\$ 9,600.91
			Fund balance:		
			Unrestricted (Note 6)	1,735,969.05	1,564,225.48
Total unexpended plant	1,737,056.16	1,573,826.39	Total unexpended plant	1,737,056.16	1,573,826.39
Renewals and replacements:			Renewals and replacements:		
Cash and cash equivalents (Notes 3 and 4)	368,938.59	325,883.51	Liabilities:		
			Accounts payable	443.75	336.79
			Fund balance:		
			Unrestricted (Note 6)	368,494.84	325,546.72
Total renewals and replacements	368,938.59	325,883.51	Total renewals and replacements	368,938.59	325,883.51
Retirement of indebtedness:			Retirement of indebtedness:		
Cash and cash equivalents (Notes 3 and 4)	2,403.88	-	Liabilities:		
			Accrued interest payable	2,403.88	-
Total retirement of indebtedness	2,403.88	-	Total retirement of indebtedness	2,403.88	-
Investment in plant:			Investment in plant:		
Land	555,293.11	424,573.60	Liabilities:		
Buildings	18,179,202.69	13,489,981.14	Notes payable (Note 7)	770,000.00	-
Improvements other than buildings	1,238,818.89	1,146,536.23	Fund balance:		
Equipment	8,412,922.02	7,569,054.93	Net investment in plant	41,699,910.53	35,742,077.42
Library books	2,282,064.00	947,540.00			
Other library holdings	766,728.00	982,298.00			
Construction in progress	11,034,881.82	11,182,093.52			
Total investment in plant	42,469,910.53	35,742,077.42	Total investment in plant	42,469,910.53	35,742,077.42
Total plant funds	\$ 44,578,309.16	\$ 37,641,787.32	Total plant funds	\$ 44,578,309.16	\$ 37,641,787.32
Agency funds:			Agency funds:		
Nonfoundation funds:			Nonfoundation funds:		
Cash and cash equivalents (Notes 3 and 4)	\$ 395,553.13	\$ 474,631.62	Liabilities:		
Accrued interest receivable	1,449.21	204.59	Accounts payable	\$ 30.00	\$ -
Accounts and notes receivable	1,188.00	148.00	Deposits held in custody for others	398,160.34	474,984.21
Total nonfoundation funds	398,190.34	474,984.21	Total nonfoundation funds	398,190.34	474,984.21
Foundation funds:			Foundation funds:		
Cash and cash equivalents (Notes 3 and 4)	6,049,098.63	4,168,957.15	Liabilities:		
Investments (Note 5)	3,524,542.98	3,602,286.22	Notes payable (Note 7)	422,705.95	541,040.65
Other assets	1,312,515.60	1,312,515.60	Accrued interest payable	2,335.21	2,159.94
Accounts receivable	258,555.56	325,000.00	Deposits held in custody for foundation	10,719,671.61	8,865,558.38
Total foundation funds	11,144,712.77	9,408,758.97	Total foundation funds	11,144,712.77	9,408,758.97
Total agency funds	\$ 11,542,903.11	\$ 9,883,743.18	Total agency funds	\$ 11,542,903.11	\$ 9,883,743.18

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1997

	Current Funds			Plant Funds			
	Unrestricted	Restricted	Loan Funds	Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment In Plant
REVENUES AND OTHER ADDITIONS							
Unrestricted current fund revenues	\$ 18,566,835.79	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	1,546,760.22	-	-	-	-	-	-
State appropriations	-	92,282.00	-	3,729,707.70	-	-	-
Federal grants and contracts	-	7,090,794.33	-	-	-	-	-
State grants and contracts	-	509.76	-	-	-	-	-
Local grants and contracts	-	2,884.57	-	-	-	-	-
Private gifts, grants, and contracts	-	92,319.75	-	985.47	-	-	-
Investment income	-	-	38.10	-	-	-	-
Interest on loans receivable	-	-	241.60	-	-	-	-
Equipment use charges	-	-	-	-	109,100.00	-	-
Expended for plant facilities (including \$459,927.00 charged to current fund expenditures)	-	-	-	-	-	-	4,932,176.27
Library holdings revaluation (Note 13)	-	-	-	-	-	-	1,058,095.12
TSSBA borrowings	-	-	-	770,000.00	-	-	-
Other	-	-	-	258.06	-	-	778.98
Total revenues and other additions	<u>20,113,596.01</u>	<u>7,278,790.41</u>	<u>279.70</u>	<u>4,500,951.23</u>	<u>109,100.00</u>	<u>-</u>	<u>5,991,050.37</u>
EXPENDITURES AND OTHER DEDUCTIONS							
Educational and general expenditures	18,299,927.44	7,006,380.21	-	-	-	-	-
Auxiliary enterprise expenditures	1,352,304.03	-	-	-	-	-	-
Indirect costs recovered	-	147,824.48	-	-	-	-	-
Provision for doubtful accounts	-	-	41.60	-	-	-	-
Expended for plant facilities	-	-	-	4,402,731.76	69,517.51	-	-
Expended for noncapital items	-	-	-	600,206.39	15,341.70	-	-
Disposal of plant facilities	-	-	-	-	-	-	33,217.26
Retirement of indebtedness	-	-	-	-	-	8,062.85	-
Other	-	53,672.49	-	6,306.66	-	-	-
Total expenditures and other deductions	<u>19,652,231.47</u>	<u>7,207,877.18</u>	<u>41.60</u>	<u>5,009,244.81</u>	<u>84,859.21</u>	<u>8,062.85</u>	<u>33,217.26</u>
TRANSFERS AMONG FUNDS-ADDITIONS (DEDUCTIONS)							
Mandatory:							
Principal and interest	-	-	-	(8,062.85)	-	8,062.85	-
Nonmandatory:							
Unexpended plant	(688,100.00)	-	-	688,100.00	-	-	-
Renewals and replacements	(18,707.33)	-	-	-	18,707.33	-	-
Total transfers	<u>(706,807.33)</u>	<u>-</u>	<u>-</u>	<u>680,037.15</u>	<u>18,707.33</u>	<u>8,062.85</u>	<u>-</u>
Net increases (decrease) for the year	(245,442.79)	70,913.23	238.10	171,743.57	42,948.12	-	5,957,833.11
Fund balances at beginning of year	<u>1,756,024.74</u>	<u>304,831.98</u>	<u>672.84</u>	<u>1,564,225.48</u>	<u>325,546.72</u>	<u>-</u>	<u>35,742,077.42</u>
Fund balances at end of year	\$ <u>1,510,581.95</u>	\$ <u>375,745.21</u>	\$ <u>910.94</u>	\$ <u>1,735,969.05</u>	\$ <u>368,494.84</u>	\$ <u>-</u>	\$ <u>41,699,910.53</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 1996

	Current Funds			Plant Funds		
	Unrestricted	Restricted	Loan Funds	Unexpended	Renewals and Replacements	Investment In Plant
REVENUES AND OTHER ADDITIONS						
Unrestricted current fund revenues	\$ 17,729,050.71	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	1,373,887.98	-	-	-	-	-
State appropriations	-	92,300.00	-	7,754,105.05	-	-
Federal grants and contracts	-	7,617,653.77	-	-	-	-
State grants and contracts	-	1,997.67	-	-	-	-
Private gifts, grants, and contracts	-	86,266.79	-	-	-	-
Investment income	-	-	35.45	-	-	-
Interest on loans receivable	-	-	58.90	-	-	-
Equipment use charges	-	-	-	-	108,700.00	-
Expended for plant facilities (including \$618,709.53 charged to current fund expenditures)	-	-	-	-	-	8,772,545.24
Other	-	-	-	-	-	12,113.01
Total revenues and other additions	19,102,938.69	7,798,218.23	94.35	7,754,105.05	108,700.00	8,784,658.25
EXPENDITURES AND OTHER DEDUCTIONS						
Educational and general expenditures	17,427,914.62	7,597,915.15	-	-	-	-
Auxiliary enterprise expenditures	1,196,580.80	-	-	-	-	-
Indirect costs recovered	-	168,574.97	-	-	-	-
Provision for doubtful accounts	-	-	58.90	-	-	-
Expended for plant facilities	-	-	-	7,983,538.51	170,297.20	-
Expended for noncapital items	-	-	-	214,280.83	27,726.69	-
Disposal of plant facilities	-	-	-	-	-	440,832.46
Library holdings revaluation	-	-	-	-	-	63,354.63
Other	-	12,644.54	-	-	-	13,605.04
Total expenditures and other deductions	18,624,495.42	7,779,134.66	58.90	8,197,819.34	198,023.89	517,792.13
TRANSFERS AMONG FUNDS-ADDITIONS (DEDUCTIONS)						
Nonmandatory:						
Unexpended plant	(280,200.00)	-	-	280,200.00	-	-
Renewals and replacements	(57,344.86)	-	-	(44,186.48)	101,531.34	-
Total transfers	(337,544.86)	-	-	236,013.52	101,531.34	-
Net increases (decrease) for the year	140,898.41	19,083.57	35.45	(207,700.77)	12,207.45	8,266,866.12
Fund balances at beginning of year	1,615,126.33	285,748.41	637.39	1,771,926.25	313,339.27	27,475,211.30
Fund balances at end of year	\$ 1,756,024.74	\$ 304,831.98	\$ 672.84	\$ 1,564,225.48	\$ 325,546.72	\$ 35,742,077.42

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1997

	Unrestricted	Restricted	Total
<u>REVENUES</u>			
Tuition and fees	\$ 4,807,212.25	\$ 29,143.25	\$ 4,836,355.50
State appropriations	12,657,500.00	92,282.00	12,749,782.00
Federal grants and contracts	145,272.92	6,839,902.54	6,985,175.46
State grants and contracts	28,593.82	509.76	29,103.58
Local grants and contracts	-	2,696.69	2,696.69
Private gifts, grants, and contracts	45,935.00	41,845.97	87,780.97
Sales and services of educational activities	439,990.04	-	439,990.04
Sales and services of auxiliary enterprises	1,546,760.22	-	1,546,760.22
Other sources	442,331.76	-	442,331.76
Total current revenues	<u>20,113,596.01</u>	<u>7,006,380.21</u>	<u>27,119,976.22</u>
<u>EXPENDITURES AND TRANSFERS</u>			
Educational and general expenditures:			
Instruction	10,560,706.12	243,711.86	10,804,417.98
Public service	364,740.82	3,719,194.42	4,083,935.24
Academic support	1,243,927.66	91,141.48	1,335,069.14
Student services	1,761,594.09	78,540.79	1,840,134.88
Institutional support	1,989,120.90	1,422.29	1,990,543.19
Operation and maintenance of plant	2,207,984.65	926.61	2,208,911.26
Scholarships and fellowships	171,853.20	2,871,442.76	3,043,295.96
Total educational and general expenditures	<u>18,299,927.44</u>	<u>7,006,380.21</u>	<u>25,306,307.65</u>
Nonmandatory transfer for:			
Unexpended plant	688,100.00	-	688,100.00
Total educational and general	<u>18,988,027.44</u>	<u>7,006,380.21</u>	<u>25,994,407.65</u>
Auxiliary enterprises:			
Expenditures	1,352,304.03	-	1,352,304.03
Nonmandatory transfer for:			
Renewals and replacements	18,707.33	-	18,707.33
Total auxiliary enterprises	<u>1,371,011.36</u>	<u>-</u>	<u>1,371,011.36</u>
Total expenditures and transfers	<u>20,359,038.80</u>	<u>7,006,380.21</u>	<u>27,365,419.01</u>
<u>OTHER ADDITION (DEDUCTIONS)</u>			
Excess of restricted receipts over transfers to revenues	-	272,410.20	272,410.20
Indirect costs recovered	-	(147,824.48)	(147,824.48)
Other deductions	-	(53,672.49)	(53,672.49)
Net increase (decrease) in fund balances	<u>\$ (245,442.79)</u>	<u>\$ 70,913.23</u>	<u>\$ (174,529.56)</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
WALTERS STATE COMMUNITY COLLEGE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 1996

	Unrestricted	Restricted	Total
<u>REVENUES</u>			
Tuition and fees	\$ 4,474,162.38	\$ -	\$ 4,474,162.38
State appropriations	12,307,500.00	92,300.00	12,399,800.00
Federal grants and contracts	168,574.97	7,409,494.42	7,578,069.39
State grants and contracts	4,670.85	-	4,670.85
Local grants and contracts	451.00	-	451.00
Private gifts, grants, & contracts	27,162.98	96,120.73	123,283.71
Sales and services of educational activities	374,335.68	-	374,335.68
Sales and services of auxiliary enterprises	1,373,887.98	-	1,373,887.98
Other sources	372,192.85	-	372,192.85
Total current revenues	<u>19,102,938.69</u>	<u>7,597,915.15</u>	<u>26,700,853.84</u>
<u>EXPENDITURES AND TRANSFERS</u>			
Educational and general expenditures:			
Instruction	10,363,181.28	274,896.25	10,638,077.53
Public service	253,218.96	4,502,308.41	4,755,527.37
Academic support	1,164,604.18	90,585.27	1,255,189.45
Student services	1,742,770.64	88,619.42	1,831,390.06
Institutional support	1,934,412.00	473.33	1,934,885.33
Operation and maintenance of plant	1,803,049.22	-	1,803,049.22
Scholarships and fellowships	166,678.34	2,641,032.47	2,807,710.81
Total educational and general expenditures	<u>17,427,914.62</u>	<u>7,597,915.15</u>	<u>25,025,829.77</u>
Nonmandatory transfers for:			
Unexpended plant	280,200.00	-	280,200.00
Renewals and replacements	40,000.00	-	40,000.00
Total educational and general	<u>17,748,114.62</u>	<u>7,597,915.15</u>	<u>25,346,029.77</u>
Auxiliary enterprises:			
Expenditures	1,196,580.80	-	1,196,580.80
Nonmandatory transfer for:			
Renewals and replacements	17,344.86	-	17,344.86
Total auxiliary enterprises	<u>1,213,925.66</u>	<u>-</u>	<u>1,213,925.66</u>
Total expenditures and transfers	<u>18,962,040.28</u>	<u>7,597,915.15</u>	<u>26,559,955.43</u>
<u>OTHER ADDITION (DEDUCTIONS)</u>			
Excess of restricted receipts over transfers to revenues	-	200,303.08	200,303.08
Indirect costs recovered	-	(168,574.97)	(168,574.97)
Other deductions	-	(12,644.54)	(12,644.54)
Net increases in fund balances	<u>\$ 140,898.41</u>	<u>\$ 19,083.57</u>	<u>\$ 159,981.98</u>

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements
June 30, 1997, and June 30, 1996**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The college is part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

BASIS OF PRESENTATION

The financial statements of the college have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The college uses the AICPA College Guide model for accounting and financial reporting.

BASIS OF ACCOUNTING

The financial statements of the college have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings, (2) mandatory transfers, for required debt amortization and interest, and (3) nonmandatory transfers, for all other cases.

FUND ACCOUNTING

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996**

To ensure observance of limitations and restrictions placed on the use of the resources available, the college maintains accounts in accordance with the principles of fund accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the college retains full control for use in achieving any of its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include the bookstore, food services, and vending operations. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996**

Loan Funds

Loan funds consist of resources made available for student loans.

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes, (2) funds set aside for the renewal and replacement of institutional properties, (3) funds set aside for debt service charges and for the retirement of the indebtedness on institutional properties, and (4) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the college acts solely as an agent; consequently, transactions of these funds do not affect the college's operating statements.

LGIP DEPOSIT–CAPITAL PROJECTS

Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenditures are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and any remaining funds are released by the Tennessee Board of Regents.

INVENTORIES

Inventories are valued at the lower of cost or market. Textbooks included in the inventory are recorded on a first-in, first-out basis. All other items are maintained on an average-cost or first-in, first-out basis.

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996**

CHECKS PAYABLE

These amounts represent the sum of checks written in excess of the college's checking account balance because of the college's use of a controlled disbursement account. Through the use of a controlled disbursement account, the college maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily.

ALLOCATION FOR WORKING CAPITAL

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

PLANT ASSETS

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Library books and other library holdings are valued at various standardized values which approximate current costs. Library books are valued at \$48 per volume at June 30, 1997, and \$20 per volume at June 30, 1996. Depreciation on the physical plant and equipment is not recorded.

In the case of service departments, the college charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

Under a contract with the Tennessee Department of Labor, the college is the administrative entity and grant recipient for the Job Training Partnership Act in service delivery area two of the State of Tennessee. The title to all the equipment purchased by the college under the provisions of the act resides with the U. S. Department of Labor. Therefore, this equipment is not included in the college's plant fund assets.

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996**

WALTERS STATE COMMUNITY COLLEGE FOUNDATION

The college is the sole beneficiary of the Walters State Community College Foundation. This private, nonprofit foundation is controlled by a board independent of the college. The financial records, investments, and other financial transactions are handled by the college, and the assets and liabilities of the foundation are included in the agency funds on the college's balance sheet.

NOTE 2. COMPENSATED ABSENCES

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. Generally accepted accounting principles require that certain accrued compensated absences and related benefits, the effects of which are material to the financial statements, be recorded as earned. The college's policy is to record such benefits as paid. The recognition of this liability for accrued compensated absences and related benefits would have increased the liabilities of the unrestricted current fund by \$764,722.10 at June 30, 1997, and \$797,282.30 at June 30, 1996, decreased the unrestricted current fund expenditures by \$32,560.20 for the year ended June 30, 1997, and increased the unrestricted current fund expenditures by \$18,639.38 for the year ended June 30, 1996.

NOTE 3. CASH AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less. At June 30, 1997, cash and cash equivalents consisted of \$2,462.02 in bank accounts, \$1,431,133.45 of repurchase agreements, \$7,205.00 of petty cash on hand, \$9,486,768.76 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer, and \$468,119.96 in a business investment account. At June 30, 1996, cash and cash equivalents consisted of \$2,420.34 in bank accounts, \$516,284.92 of repurchase agreements, \$5,255.00 of petty cash on hand, \$985,000.00 of certificates of deposit, \$7,891,935.44 in the State of Tennessee Local Government Investment Pool, and \$177,312.61 in a business investment account.

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996**

NOTE 4. DEPOSITS

The college's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

NOTE 5. INVESTMENTS

The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The Walters State Community College Foundation is authorized to invest funds in accordance with its board of directors' policies. Investments are valued at cost, or in the case of gifts, at fair value on the date of receipt. Certificates of deposit have been included with other deposits in Note 4 to determine the adequacy of collateral security pledged.

The college's and foundation's investments are categorized below to indicate the level of risk assumed by the college and foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the college or foundation or its agent in the college's or foundation's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the college's or foundation's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the college's or foundation's name.

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996**

June 30, 1997

	Category			Carrying Amount	Market Value
	1	2	3		
U. S. government securities	\$ -	\$ -	\$ 2,056,019.30	\$ 2,056,019.30	\$ 2,055,177.85
Repurchase agreements	-	-	1,431,133.45	1,431,133.45	1,431,133.45
Corporate bonds	-	-	555,137.39	555,137.39	561,890.89
Corporate stocks	<u>11,129.57</u>	<u>-</u>	<u>802,528.52</u>	<u>813,658.09</u>	<u>1,400,726.47</u>
	<u>\$ 11,129.57</u>	<u>\$ -</u>	<u>\$ 4,844,818.66</u>	4,855,948.23	5,448,928.66

College cash equivalents and investments not susceptible to categorization:

Mutual funds - U. S. Government portfolio	468,119.96	468,119.96
Cash surrender value of life insurance	49,728.20	49,728.20
Certificates of deposit	<u>50,000.00</u>	<u>50,000.00</u>
	<u>567,848.16</u>	<u>567,848.16</u>

Less cash equivalents:

Repurchase agreements	1,431,133.45	1,431,133.45
Mutual funds - U. S. Government portfolio	<u>468,119.96</u>	<u>468,119.96</u>
	<u>1,899,253.41</u>	<u>1,899,253.41</u>

Total investments on the balance sheet \$ 3,524,542.98 \$ 4,117,523.41

June 30, 1996

	Category			Carrying Amount	Market Value
	1	2	3		
U. S. government securities	\$ -	\$ -	\$ 2,020,657.32	2,020,657.32	2,020,657.32
Repurchase agreements	-	-	516,284.92	\$ 516,284.92	\$ 516,284.92
Corporate bonds	-	-	606,518.64	606,518.64	609,842.64
Corporate stocks	<u>2,317.07</u>	<u>-</u>	<u>924,717.52</u>	<u>927,034.59</u>	<u>1,274,649.32</u>
	<u>\$ 2,317.07</u>	<u>\$ -</u>	<u>\$ 4,068,178.40</u>	4,070,495.47	4,421,434.20

College cash equivalents and investments not susceptible to categorization:

Mutual funds - U. S. Government portfolio	177,312.61	177,312.61
Cash surrender value of life insurance	<u>48,075.67</u>	<u>48,075.67</u>
	<u>225,388.28</u>	<u>225,388.28</u>

Less cash equivalents:

Repurchase agreements	516,284.92	516,284.92
Mutual funds - U. S. Government portfolio	<u>177,312.61</u>	<u>177,312.61</u>
	<u>693,597.53</u>	<u>693,597.53</u>

Total investments on the balance sheet \$ 3,602,286.22 \$ 3,953,224.95

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996**

NOTE 6. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 1997, amounted to \$18,913.65 for unexpended plant and \$9,936.50 for renewals and replacements. Plant fund encumbrances outstanding at June 30, 1996, amounted to \$52,243.12 for unexpended plant and \$13,317.05 for renewals and replacements.

NOTE 7. NOTES PAYABLE

On September 14, 1995, the Walters State Foundation entered into a purchase agreement with Greene County, Tennessee, wherein the foundation acquired from Greene County the property formerly known as Laughlin Memorial Hospital, Greeneville, Tennessee. Under the terms of the agreement and promissory note, and a separate agreement executed on September 13, 1995, with the Town of Greeneville, Tennessee, one-third of the note will be paid by the foundation, the Town of Greeneville, and Greene County. Amounts equal to payment of principal and interest made by both the Town of Greeneville and Greene County are donated annually to the Walters State Foundation. The total note has a face amount of \$650,000 bears an annual interest rate of 4%, and a due date of May 1, 2000. Annual payments of principal and interest are made each June. The total balance owed as of June 30, 1997, was \$325,000.

Additionally, the foundation acquires an annual loan from Jefferson County Savings and Loan to pay the portion of the note applicable to the Town of Greeneville, who reimburses the foundation subsequent to year-end. The current note bears an annual interest rate of 6.75%, a face amount of \$90,000 a debt service of \$35, and a due date of June 23, 1998. The balance as of June 30, 1997, was \$90,035

The Walters State Foundation borrowed funds to begin the construction of the Agribusiness Pavilion in an amount equal to pledged funds not yet received. The note is a six-month renewable note, bears an annual interest rate of 6.5%, and has a due date of December 2, 1997. The balance owed as of June 30, 1997, was \$7,670.95.

The college's debt service requirements to maturity for all notes payable at June 30, 1997, excluding bond anticipation notes, are as follows:

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996**

Year Ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1998	\$206,039.28	\$19,358.61	\$225,397.89
1999	108,333.33	8,666.67	117,000.00
2000	<u>108,333.34</u>	<u>4,333.33</u>	<u>112,666.67</u>
	<u>\$422,705.95</u>	<u>\$32,358.61</u>	<u>\$455,064.56</u>

Interim and short-term financing for various projects has been secured through the Tennessee State School Bond Authority from the Bond Anticipation Notes (BANs) Program established February 24, 1993, with Prudential Securities, Incorporated, as the underwriter and remarketing agent, to fund projects under construction. Under the BANs Program, the notes will mature on March 1, 1998, and may bear interest at a variable rate (daily, weekly, monthly, quarterly, semiannually, or annually) or a fixed rate (long-term) determined by the remarketing agent for periods selected by the authority. Currently, interest is determined on a weekly basis and payable monthly. The notes are subject to purchase by the remarketing agent on the demand of the holder on any business day pursuant to the conditions established in the Note Resolution, as described in the Official Statement relating to the notes. The remarketing agent is to use its best efforts to sell the notes to another holder. If the agent is unable to resell any notes that have been "put," the standby note purchaser is required, subject to certain conditions, to purchase the notes. A standby note purchase agreement was entered into with Union Bank of Switzerland (UBS) on June 26, 1996, providing liquidity for up to \$105,000,000.00 principal amount of the notes with interest coverage for 34 days at the maximum rate of 12%, for a total commitment of \$106,173,699.00. The authority contracted to pay UBS 6 basis points per annum for the utilized portion and 5 basis points per annum for the unutilized portion of the commitment. The agreement was extended effective June 26, 1997, through March 1, 1998, based on a reduced maximum available commitment of \$64,523,273.42. It is expected that a portion of these notes will be redeemed with the proceeds from a sale of bonds at the end of the construction period for the projects being financed. The balance owed by the college was \$770,000.00 at June 30, 1997.

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996**

NOTE 8. PENSION PLANS

A. Defined Benefit Plan

During the year ended June 30, 1997, the college implemented GASB Statement 27, "Accounting for Pensions by State and Local Government Employers." In accordance with that statement, at transition it was determined that a pension liability or asset does not exist for this plan.

Tennessee Consolidated Retirement System

Plan Description - The college contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230, or by calling (615) 741-8202, extension 139.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 7.36% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 1997, 1996, and 1995, were \$639,301.39, \$541,495.76, and \$539,878.36. Contributions met the requirements for each year.

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996**

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association–College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans for the year ended June 30, 1997, was \$286,411.83, which represented 10% of the covered payroll, and for the year ended June 30, 1996, was \$289,877.05, which represented 10% of the covered payroll. Contributions met the requirements for each year.

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

**Tennessee Board of Regents
Walters State Community College
Notes to the Financial Statements (Cont.)
June 30, 1997, and June 30, 1996**

NOTE 10. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$5 million has been established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 1997, the scheduled coverage for the college was \$36,455,300 for buildings and \$12,858,600 for contents. At June 30, 1996, the scheduled coverage was \$34,458,700 for buildings and \$12,114,600 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automotive liability, professional malpractice, and workers' compensation. The college participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the college participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

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NOTE 11. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$4,767,729.96 at June 30, 1997, and \$4,689,224.56 at June 30, 1996.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were \$134,741.58 and for personal property were \$52,996.77 for the year ended June 30, 1997. The amounts for the year ended June 30, 1996, were \$91,849.98 and \$51,557.40. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 1997, outstanding commitments under construction contracts totaled \$4,100,237 for the library, Math/Science Building, Agribusiness Expo Center, Sevier County Center, and Defense and Tactical Driving Course, of which \$3,786,324 will be funded by future state capital outlay appropriations.

Litigation - The college is involved in several lawsuits, none of which are expected to have a material effect on the accompanying financial statements.

NOTE 12. PLEDGES

At June 30, 1997, unrecorded pledges of the Walters State Community College Foundation totaled \$83,785; \$18,005 of the pledges were unrestricted as to use. The remainder of the pledges were to be used for scholarships, student loans, professional development, and the expo center. These pledges are due to be collected over the next 13 fiscal years as follows:

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<u>Year Ending June 30</u>	<u>Amount</u>
1998	\$27,285
1999	10,500
2000	8,500
2001	6,500
2002 and beyond	<u>31,000</u>
Total	<u>\$83,785</u>

It is not practicable to estimate the net realizable value of such pledges; therefore, they are not reflected in the accompanying financial statements.

NOTE 13. CHANGE IN ESTIMATE OF LIBRARY HOLDINGS STANDARDIZED VALUES

At June 30, 1996, library books were valued at \$20 per volume, and other library holdings were valued at various standardized values. The valuations were reassessed at June 30, 1997, and the value for library books was increased to \$48 per volume, and the standardized values for other library holdings were also increased/decreased by various amounts. As a result of the revaluation, library books increased by \$1,331,204 and other library holdings decreased by \$230,161 and net investment in plant, under the investment in plant fund subgroup, increased by \$1,101,043 at June 30, 1997.

NOTE 14. SUBSEQUENT EVENT

The Walters State Foundation has entered into an agreement with the State Treasurer to deposit \$6,000,000 into the State of Tennessee Local Government Investment Pool (LGIP). These funds will be used for the financial agreements related to the building and completion of the Walters State Sevier County Center. Upon completion of the project, the center will be donated from the foundation to the State of Tennessee with excess funds reverting to the foundation. An initial deposit of \$3,000,000 has been authorized, and will be transferred into the appropriate LGIP account subsequent to June 30, 1997. The remaining funds will be transferred as funds are received from various pledges and other commitments. No state capital outlay appropriations will be made for the project.